

## Medicaid

The Medicaid program provides matching funds to states to finance medical care for low-income persons who are blind, aged, or disabled, or who belong to families with dependent children. Federal expenditures totalled more than \$17 billion in 1982 and helped provide benefits to about 20.4 million persons. About 80 percent of these recipients also received either AFDC or SSI benefits.

Most of the cuts in Medicaid since 1981 were enacted as part of OBRA. Under OBRA, federal grants to states were reduced by 3 percent in 1982, by 4 percent in 1983, and by 4.5 percent by 1984. States could, however, avoid this reduction by reducing their error rates and rates of benefit growth; in addition, they were given more discretion in the areas of hospital reimbursement and eligibility determination. Changes in AFDC eligibility under OBRA also reduced projected Medicaid outlays. Over the 1982-1985 period, these changes are projected to reduce expenditures by about \$3.9 billion relative to the revised 1981 baseline.

A few additional program changes were enacted in Medicaid in 1982. States were given the option of requiring "copayments" (patient-paid shares) from recipients and, to recoup the cost of benefits, were allowed to place liens on the homes of recipients who died while in an institution. It is still too early to assess the response of states to this added flexibility.



### Other Health Services

A relatively small amount of additional health-care services are provided by the federal government through the Health Resources and Services Administration. Prior to 1983, there were two agencies--a Health Resources Administration and a Health Services Administration. For technical reasons, estimates here reflect only programs funded under the Health Services Administration--largely those incorporated into the Primary Care and the Maternal and Child Health block grants, but also including family planning, migrant health, and black lung clinics. Benefits are largely but not exclusively targeted on low-income groups. Altogether, expenditures for these services will total less than \$5 billion over the 1982-1985 period, with spending decreasing in nominal dollars.

The 1981 Omnibus Budget Reconciliation Act established four separate health-care block grants that consolidated 21 categorical health programs. Within each of these block grants, funding was set at a lower level than the total that had been appropriated for the individual programs before consolidation. Although the recently enacted jobs bill (P.L. 98-8) added \$176 million to the totals for 1983 and 1984, the net effect of legislative action has been to reduce projected outlays by \$1.4 billion, or 22 percent relative to the revised 1981 baseline.



## EDUCATION AND SOCIAL SERVICES

Education and social service programs make up a much smaller percentage of the total human resources budget than do retirement and disability programs, other income security programs, or health-care programs; total outlays in this category represent about 4 percent of federal spending for the human resources programs considered here. Reductions in this area, therefore, though generally large compared to total program outlays, account for a relatively small proportion of total human resources outlay reductions--about 12 percent. Table 8 shows the reductions in individual programs.

The major programs in this area include compensatory education programs serving elementary and secondary school students, Guaranteed Student Loans and Pell Grants for post-secondary students, and the Social Services Block Grant. All of these programs except GSLs are discretionary rather than entitlement programs, and most, with the exception of the programs providing benefits for post-secondary students, extend grants to states and localities. State and local governments have considerable flexibility in the use of funds provided under several of these grants, so the activities supported may vary considerably from state to state. In some of these programs, there is as yet little evidence concerning the effects of federal expenditure reductions on states' spending patterns.



TABLE 8. MAJOR EDUCATION AND SOCIAL SERVICES PROGRAMS--  
CURRENT BASELINE SPENDING PROJECTIONS AND  
PERCENTAGE CHANGES IN OUTLAYS AS A RESULT OF  
LEGISLATIVE ACTIONS, FISCAL YEARS 1982-1985

Programs	Outlays (in billions of dollars) a/				Total 1982-1985
	1982	1983	1984	1985	
Compensatory Education	3.1	3.0	3.2	3.3	12.7
Head Start	0.8	0.9	0.9	1.0	3.7
Vocational Education	0.7	0.7	0.7	0.7	2.9
GSLs	3.0	2.3	2.3	2.5	10.1
Other Student Financial Assistance	2.7	3.6	3.6	3.8	13.7
Veterans' Readjustment Benefits	2.0	1.6	1.3	1.0	5.9
Social Services Block Grant	2.6	2.6	2.6	2.6	10.3
Community Services Block Grant	0.4	0.4	0.4	0.4	1.6
					(Continued)



Table 8 (continued)

Programs	Percentage Change in Outlays as a Result of Legislative Action Since 1981 b/				Total 1982-1985
	1982	1983	1984	1985	
Compensatory Education	-10.6	-18.7	-19.9	-18.9	-17.2
Head Start	1.7	-0.6	-1.1	-1.0	-0.3
Vocational Education	-10.8	-13.3	-12.7	-12.5	-12.4
GSLs	-8.3	-25.7	-33.7	-39.0	-27.5
Other Student Financial Assistance	-10.5	-10.6	-15.6	-16.1	-13.5
Veterans' Readjustment Benefits	-10.3	-9.7	-10.6	-9.3	-10.0
Social Services Block Grant	-21.4	-20.0	-21.1	-23.9	-21.6
Community Services Block Grant	-36.5	-36.3	-40.4	-42.3	-38.9

SOURCE: Congressional Budget Office.

- a. Reflects legislative changes made before July 31, 1983. Based on February 1983 economic assumptions.
- b. The 1981 baseline, revised to reflect current economic assumptions, is used as the base for computing percentage changes.



### Compensatory Education

Title I of the Elementary and Secondary Education Act--as modified by Chapter I of the Education Consolidation and Improvement Act (ECIA) of 1981--is the largest source of aid to localities for compensatory education, and it provides nearly half of all federal aid to elementary and secondary education. In more than half the states, the ECIA is the only source of aid to localities for compensatory education at the elementary school level. In the 18 states that had their own programs in the 1978-1979 school year, federal dollars provided, on average, more than 70 percent of total federal and state funding for compensatory education. Nationwide, federal money provided nearly 80 percent of all federal and state compensatory education aid.

Under Title I, Part A, formula grants are distributed among and within the states on the basis of state school expenditures per pupil and the relative number of school-age children from low-income families, although at the school level, compensatory services are targeted on low-achieving children regardless of family income. <sup>13/</sup> Almost 90 percent of school districts receive some funds under Title I, but districts with large concentrations of poor children receive larger per pupil allocations.

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13. About 85 percent of Title I funding is for Part A programs for local education agencies. There are several smaller programs under Part B, for services provided by state agencies to institutionalized and migrant children.



Funding levels for Title I/Chapter I have declined by about 17 percent over the projection period as a whole relative to the revised 1981 baseline. In addition to changes in funding levels, OBRA also simplified the legislative provisions for the program and increased state and local flexibility in the use of funds. These changes reduced the degree of required targeting of funds on low-income children.

Measuring the impact of these changes is complicated by several factors. For example, state and local educational agencies may respond to funding cuts by reducing the number of children served, by reducing the level of expenditures per child, or by trying to provide services in a more cost-effective manner. In addition, federal funds may be used up to two years after they are received, which may delay the impact of budget reductions on state and local programs. Further, if any additional state funds are made available for each program, the impact of a reduction in federal funding may be diminished, although past experience shows that states are more likely to reduce services than to replace federal funds in this area. Finally, statistical information from the 14,000 local school districts operating programs for the disadvantaged generally requires several years to collect and publish, so detailed information on state and local responses to the problem will probably not be available for some time.



### Head Start

A second source of funding for compensatory services is Head Start, a social service program that provides educational, nutritional, health, and social services to pre-school children from poor families in an effort to reduce disparities in development between disadvantaged children and others, so that poor children might begin their formal education on a more comparable basis. Most programs operate four to six hours a day, for eight to twelve months a year. Head Start programs spent \$2,311 per child, on average, in 1982, but sponsors typically made extensive use of other federal programs--especially nutrition subsidies, Medicaid, and public service employment--in providing services as well. 14/

Head Start funds are apportioned among the states by a formula based on each state's relative number of poor children. Project grants from a state's allocation are then provided by the federal government to eligible local organizations within the state--including community action agencies, schools, and religious groups. Local sponsors are required to provide at least 20 percent of program expenses. Some provide more than this, but the bulk of local contributions is in kind--volunteer workers and donations of space and equipment. Federal dollars are nearly 100 percent of cash support.

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14. The use of public service employees has been greatly reduced by the elimination of public service employment in most employment assistance programs. Some public service employment continues, however, for older workers through the Community Service Employment (CSE) program under the Older Americans Act.



Changes in Head Start funding have been small. Funding levels in 1982 were increased by about 2 percent relative to the revised 1981 baseline, and small decreases--approximately 1 percent per year--are projected for 1983-1985.

### Vocational Education

Programs authorized under the Vocational Education Act support basic vocational training and special programs for the disadvantaged. Most funds are allocated among the states through a formula based on population and per capita income. States in turn distribute the funds to local education agencies largely on the basis of school population. Federal dollars account for only about 10 percent of all public spending for vocational education, but they contribute more than half of all funding for programs targeted on disadvantaged students.

Funding for federal vocational education programs has declined by about 12 percent over the projection period relative to the revised 1981 baseline. No significant changes in the program's authorizing legislation have been made, although the Administration has proposed to consolidate the various vocational education programs together with adult education into a single block grant to states. The reduction in overall funding for vocational education that has taken place will probably have little effect on basic vocational programs, since the federal contribution is small and these



programs are well supported at the local level. Programs targeted on disadvantaged groups are likely to be more adversely affected, however.

#### Guaranteed Student Loans

The GSL program provides subsidized loans for students in post-secondary education. The federal government insures the loans against default, pays the interest while students are in school, and pays lenders varying amounts intended to provide a market rate of return. Although most current borrowers receive GSLs at 9 percent interest, new borrowers after September will obtain 8 percent loans.

The 1981 reconciliation act requires students with family incomes above \$30,000 to demonstrate financial need to qualify for loans; before this change, all students were eligible for GSLs regardless of their family incomes. The 1981 act also added a requirement that all borrowers pay an "origination fee" equal to 5 percent of the amount borrowed. Compared to outlays under the revised 1981 baseline, GSL spending in the 1982-1985 period was reduced by about \$3.8 billion, or about 27 percent. The 1981 baseline estimate anticipated that loan volume would increase by about 20 percent between 1981 and 1982. In fact, however, the number of students actually obtaining GSLs fell from 3.5 million to 2.8 million between those years, and the amount borrowed fell from \$7.8 billion to \$6.1 billion.



### Other Student Financial Assistance

Other financial assistance for students includes Pell Grants, campus-based student aid programs, and State Student Incentive Grants. These programs provide grants, loans, and work study funds to post-secondary students. Pell Grants, which accounted for about two-thirds of 1981 appropriations in this area, are most heavily targeted on the lowest-income students.

In 1981, Pell Grants were reduced by \$80 per student for all recipients--approximately 2.5 million students. Since then, appropriations for the Pell Grant program have not risen as fast as the rate of inflation. Total funding for other student assistance programs was also reduced slightly between 1981 and 1982, and has remained at 1982 levels in 1983. In all, projected outlays for this area in 1982-1985 are about 13 percent lower than they would have been under the revised 1981 baseline.

### Veterans' Readjustment Benefits

Veterans' readjustment benefits include GI bill education benefits; education benefits for spouses and children of veterans with permanent and total service-connected disabilities or of servicemen who die or are missing in action; vocational rehabilitation for persons with service-connected disabilities; and grants for automobiles, adaptive equipment, and specially adapted housing for certain veterans with service-connected disabilities.



Under the GI bill, education and training benefits for Vietnam-era veterans account for almost 90 percent of the total readjustment benefits appropriation. Expenditures for this group have been falling, however, because declining numbers of these veterans are participating in the GI bill program. (Generally, veterans have ten years after discharge or release from service, or up to December 31, 1989, to use their education entitlement, but extensions have been provided for certain groups.) Under the GI bill, a monthly maximum of \$342 for 45 months is paid to a single veteran, but rates are increased if there are dependents.

Changes in veterans' readjustment benefits reduced projected outlays for 1982-1985 by about 10 percent relative to the revised 1981 baseline. OBRA discontinued GI education benefits for flight training, reduced from 70 percent to 55 percent the portion of correspondence courses reimbursed under the GI bill, and terminated the educational loan program.

#### Social Services Block Grant

This grant was created in 1981 under OBRA, which merged a similar but more narrowly targeted block grant authorized by Title XX of the Social Security Act with two much smaller Title XX programs: grants for day-care services and for training state and local social service workers. Federal funds under the current block grant are allocated among the states solely on the basis of population.



The consolidated grant carries no requirement that spending levels under the predecessor grants for day care and for training be maintained. In addition, federal requirements under the prior grants restricting eligibility for services to low-income individuals and requiring matching state-local funds were eliminated. Elimination of the matching requirement is not likely to have much effect on total service levels, however, since most states provided more than their required share.

Projected outlays in 1983-1985 for the Social Services Block Grant are about 22 percent lower than the revised 1981 baseline projections for the programs it replaced. Since federal funding for 1982 was less than would have been required to maintain 1981 service levels, many states have reduced their spending for day care and for training in an effort to maintain other services, particularly protective services for children and adults and community care services for the elderly and disabled. In addition, states have shifted costs to other federal programs whenever possible. For example, for welfare clients, day-care costs have been shifted to AFDC, and family planning and home health-care costs have been shifted to Medicaid. Evidence for the priority given to social service programs is the decision by 20 states to transfer funds from the Low Income Energy Block Grant to the Social Services Block Grant, as authorized under OBRA.



### Community Services Block Grant

The Community Services Block Grant, which was also created under OBRA, replaced programs run by the Community Services Administration (CSA) in 1982. Block grant funds with no matching requirement are distributed among the states on the basis of the previous allocation of funds under the CSA, which gave project grants directly to community action agencies in largely urban, low-income areas. Some states indicate, however, that they intend to distribute funds more broadly among localities in the future since federal restrictions on continued funding of previous recipients no longer apply beginning in 1983. It is uncertain how the community action agencies that previously received funds from the CSA will fare under the new block grant. Federal dollars may instead be channeled entirely through local government agencies.

Projected federal funding under this Community Services Block Grant is about 39 percent lower for 1982-1985 than the revised 1981 baseline for the programs it replaced. Funds may be used for a variety of community-based services and for community economic development. In the past, community action agencies often served as sponsors for Head Start programs, and were the recipients of grants from a variety of other federal and state programs. Their major role was to draw together and to coordinate the various federal, state, and local resources that could be used to improve the circumstances of the poor in the community.



## EMPLOYMENT AND TRAINING PROGRAMS

Although employment programs account for less than 3 percent of outlays for human resources programs considered here, they absorbed almost 23 percent of the total reduction in expenditures resulting from legislative actions. The largest reduction was the elimination of the Public Service Employment (PSE) program. Large reductions were also made in other employment and training programs, although some funds were restored to these programs in 1983. Table 9 shows the 1983 baseline outlay projections for selected employment programs and the percentage changes as a result of legislative actions.

### General Employment and Training Programs

The federal government supports employment programs for two kinds of workers--those who are economically disadvantaged and those who are "dislocated" by structural changes in the labor market. Most programs are authorized under the Job Training Partnership Act (JTPA), which replaced the Comprehensive Employment and Training Act (CETA) in 1982. About 97 percent of JTPA funding supports programs for the disadvantaged, and the remainder is for dislocated workers. Except for the Job Corps (which is considered separately below) and special programs for migrant workers and Indians, employment programs are administered by state and local agencies. The services provided include classroom training, on-the-job training, summer employment for youth, counseling, and job search assistance.



TABLE 9. SELECTED EMPLOYMENT PROGRAMS--CURRENT  
BASELINE SPENDING PROJECTIONS AND PERCENTAGE  
CHANGES IN OUTLAYS AS A RESULT OF LEGISLATIVE  
ACTIONS, FISCAL YEARS 1982-1985

	Outlays (in billions of dollars) a/				
	1982	1983	1984	1985	Total 1982-1985
General Employment and Training Programs	3.5	3.2	3.4	3.5	13.7
Public Service Employment	0.1	--	--	--	0.1
Jobs Corps	0.6	0.6	0.6	0.6	2.4
Work Incentive Programs	0.2	0.3	0.3	0.3	1.1
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	Percentage Change in Outlays as a Result of Legislative Action Since 1981 b/				
General Employment and Training Programs	-26.3	-37.6	-37.1	-38.5	-35.1
Public Service Employment	-97.2	-100.0	-100.0	-100.0	-99.4
Jobs Corps	-2.2	-3.3	-7.7	-8.6	-5.6
Work Incentive Programs	-29.9	-31.0	-35.0	-35.1	-32.9

SOURCE: Congressional Budget Office.

NOTE: Components may not add to totals because of rounding.

- a. Reflects legislative changes made before July 31, 1983. Based on February 1983 economic assumptions.
- b. The 1981 baseline, revised to reflect current economic assumptions, is used as the base for computing percentage changes.